

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 SSO-00 /109 W

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P 041644Z DEC 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 8427

INFO AMEMBASSY ANKARA PRIORITY

AMEMBASSY BERN PRIORITY

AMEMBASSY BONN PRIORITY

AMEMBASSY BRUSSELS PRIORITY

AMEMBASSY COPENHAGEN PRIORITY

AMEMBASSY DUBLIN PRIORITY

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AMEMBASSY VIENNA PRIORITY

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AMEMBASSY OSLO PRIORITY

AMEMBASSY WELLINGTON PRIORITY

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E.O.11652: N/A

TAGS: ENRG, OPEC, JA, UK

SUBJECT: OPEC PRICE DECISION: JAPANESE STUDY OF IMPORT  
PRICES

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REF: (A) STATE 293828; (B) STATE 278391; (C) TOKYO 17484

1. DECEMBER 1 ISSUE OF "PETROLEUM ECONOMIST" CARRIES FOLLOWING ARTICLE WHICH DRAWS HEAVILY ON THE STUDY OF TOKYO-BASED ECONOMIC RESEARCH INSTITUTE FOR THE MIDDLE EAST. TEXT FOLLOWS. "ONLY SLIGHT RISE IN IMPORT COSTS"

THE ARGUMENT THAT CRUDE OIL PRICES MUST BE RAISED TO COMPENSATE THE EXPORTING COUNTRIES FOR THE INCREASED COST OF THEIR MANUFACTURED IMPORTS HAS OFTEN BEEN USED BY OPEC GOVERNMENTS. SINCE THE REVOLUTIONARY OIL PRICE RISES OF 1973-74 THEY HAVE AUSTIFIED FURTHER INCREASES ON THE GROUNDS THAT THESE WERE NECESSARY TO MAINTAIN THE PURCHASING POWER OF THEIR OIL REVENUES. IN SPITE OF FORECASTS THAT OPEC IS LIKELY TO RAISE OIL PRICES AGAIN AT ITS DECEMBER MEETING -- WITH MOST ESTIMATES IN THE RANGE OF 10 TO 15 PER CENT -- THE SAME ARGUMENT COULD NOT BE USED THIS TIME TO JUSTIFY SUCH AN INCREASE. THIS IS THE CONCLUSION REACHED IN TWO SEPARATE AND INDEPENDENT STUDIES MADE AVAILABLE TO US LAST MONTH.

ONE STUDY, BY THE PETROLEUM INDUSTRY RESEARCH FOUNDATION OF NEW YORK, FINDS THAT FROM THE THIRD QUARTER OF 1975 TO THE THIRD QUARTER OF 1976 THE WEIGHTED AVERAGE PRICE OF OPEC'S IMPORTS (FOB) HAD RISEN BY NO MORE THAN 2.7 PER CENT, WITH NO FURTHER INCREASE CONSIDERED LIKELY IN THE FOURTH QUARTER. THE PRICE INDEX IS RECKONED IN U.S. DOLLARS, SINCE THIS IS THE CURRENCY IN WHICH OIL ITSELF IS VALUED, AND IS BASED ON STATISTICS PUBLISHED BY THE IMF (INTERNATIONAL FINANCIAL STATISTICS), THE OECD (ECONOMIC OUTLOOK), AND THE UNITED NATIONS (BULLETIN OF STATISTICS). IT EXCLUDES MILITARY SUPPLIES SINCE NO PRICE DATA ARE AVAILABLE FOR THESE. INCIDENTALLY, THE IMF'S OWN INDEX OF THE EXPORT PRICES OF OECD COUNTRIES (WEIGHTED BY THE SHARE OF EACH COUNTRY IN OPEC IMPORTS) SHOWS NO INCREASE AT ALL BETWEEN THE THIRD QUARTER OF 1975 AND JULY 1976.

SINCE THE FIRST QUARTER OF 1974 -- THE PERIOD IMMEDIATELY FOLLOWING THE INITIAL LEAP IN CRUDE OIL PRICES -- THE WEIGHTED AVERAGE COST OF OPEC'S IMPORTS HAS RISEN BY 26 PER CENT ON PIRINC'S INDEX WHILE THE EXPORT PRICE OF SAUDI ARABIAN LIGHT CRUDE HAS RISEN BY OVER 40 PER CENT, FROM AROUND \$8.00 TO \$11.50 A BARREL.

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A STUDY ON THE SAME LINES BY THE TOKYO-BASED ECONOMIC RESEARCH INSTITUTE FOR THE MIDDLE EAST ARRIVES AT A SIMILAR CONCLUSION. IT STATES THAT A COMPOSITE PRICE INDEX FOR OPEC IMPORTS (VALUED FOB) ACTUALLY FELL BY 4.8 PER CENT FROM THE SECOND QUARTER OF 1975 TO THE SECOND QUARTER OF 1976, BUT THAT A SIMILAR THIRD-QUARTER COMPARISON SHOWS A RISE OF 1.1 PER CENT. THIS AGAIN WOULD JUSTIFY ONLY A TRIFLING INCREASE IN CRUDE OIL PRICES FOR

NEXT YEAR.

OPEC'S ECONOMISTS MAY DISPUTE THESE FINDINGS IF THEY CALCULATE IMPORT COSTS ON A CIF BASIS. THE EXPLANATION IS THAT THE GREAT INCREASE IN IMPORTS HAS CAUSED SERIOUS CONGESTION AT GULF PORTS -- WITH STAGGERING DELAYS OF UP TO SIX MONTHS IN SOME INSTANCES -- AND THAT THIS HAS INEVITABLY BEEN REFLECTED IN STEEPLY INCREASED SHIPPING CHARGES. THIS OF COURSE MEANS THAT THE IMPORTS HAVE COST MORE. BUT THERE IS NO VALID REASON WHY BUYERS OF OIL SHOULD BE EXPECTED TO PAY FOR THE HIGH COST OF DELAYS AND INEFFICIENCIES AT MIDDLE EAST PORTS.

A FURTHER INTERESTING POINT MADE IN THE JAPANESE STUDY IS THAT THE COST OF DEVELOPMENT PROJECTS OFTEN TURNS OUT TO BE MUCH HIGHER THAN THE ORIGINAL ESTIMATE. THIS EXCESS MAY BE ATTRIBUTED BY THE GOVERNMENT CONCERNED TO THE EFFECTS OF INFLATION IN THE INDUSTRIALIZED COUN-

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TRIES WHEN IN FACT IT IS DUE, AT LEAST IN PART, TO THE  
SHEER DIFFICULTY OF ESTIMATING ACCURATELY IN ADVANCE --  
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OR POSSIBLY TO DELIBERATE UNDERESTIMATING BY A BUSINESS  
FIRM ANXIOUS TO SECURE THE CONTRACT. THIS DOES NOT IN-  
VALIDATE THE STATISTICAL EVIDENCE THAT THERE HAS BEEN  
LITTLE OR NO INCREASE IN OECD EXPORT PRICES -- AND THUS  
IN OPEC IMPORT PRICES -- IN THE LAST 15 MONTHS.

THE COUNTRIES WHICH HAVE SUFFERED THE MOST SEVERE  
INCREASE IN THEIR IMPORT COSTS IN RECENT YEARS ARE THE  
NON-OPEC DEVELOPING COUNTRIES. THESE NATIONS HAVE HAD TO  
PAY MORE FOR THEIR MANUFACTURED IMPORTS, AS OPEC COUN-  
TRIES HAVE DONE, BUT IN ADDITION HAVE BEEN HARD HIT BY  
THE STEEP RISE IN THE PRICE OF OIL; WORST AFFECTED HAVE  
BEEN THOSE MOST DEPENDENT ON OIL. THE EXPERIENCE OF FIVE  
SUCH COUNTRIES IS APPRAISED IN THE JAPANESE STUDY, AND  
THE RESULTS ARE ILLUSTRATED IN THE ACCOMPANYING CHART.

THIS SHOWS THAT OVER THE WHOLE PERIOD 1970-76 THE  
INCREASE IN IMPORT COSTS HAS BEEN ABOUT 180 PER CENT FOR  
INDIA, 155 PER CENT FOR THE PHILIPPINES, 144 PER CENT FOR  
KENYA, 143 PER CENT FOR PAKISTAN, AND 111 PER CENT FOR  
SUDAN. THE PROPORTION OF THIS INCREASE WHICH IS  
DIRECTLY ATTRIBUTABLE TO OPEC IS 61 PER CENT. BUT SINCE  
THE UNPRECEDENTED RISE IN THE COST OF OIL HAS ITSELF CON-  
TRIBUTED MATERIALLY TO THE HIGHER PRICES OF OECD EXPORTS,  
THE TOTAL IMPACT OF OPEC'S PRICE-RAISING ACTIVITIES ON  
THE ECONOMIES OF THE DEVELOPING COUNTRIES IS APPRECIABLY  
MORE SEVERE THAN THESE FIGURES WOULD IMPLY. END OF TEXT.

ARMSTRONG

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## Message Attributes

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